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# DOD HIGH-RISK AREAS

# Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Department of Defense (DOD) programs and operations that we have identified as high risk because of vulnerabilities to waste, fraud, abuse, and mismanagement. In 1990, we began reviewing and reporting on high-risk areas throughout the federal government, and in February 1997, we issued a series of reports providing the status of such areas. Of the 25 areas we identified as high risk, 6 are within DOD. (See app. I for a list of our 1997 high-risk reports involving DOD.) DOD's inability to effectively address problems in its high-risk areas has resulted in billions of dollars being wasted and places billions of dollars in future spending at similar risk.

My statement today discusses the

- high-risk areas of financial management, information technology, weapon systems acquisition, contract management, infrastructure, and inventory management;
- underlying causes of these high-risk areas; and
- overall strategy we believe is needed to eliminate them.

## Results in Brief

To avoid the risk of waste, fraud, abuse, and mismanagement, we have made hundreds of recommendations to DOD over the last few years to help correct problems in high-risk areas, and the Congress has held oversight hearings and enacted specific legislative initiatives. DOD has taken our suggestions and congressional direction seriously and has initiated actions that resulted in some progress in each of the high-risk areas. However, eliminating these problems requires that their underlying causes be addressed.

Effectively attacking the underlying causes will require congressional support and a commitment by senior-level DOD managers to a multilevel strategy that (1) implements our recommendations to correct specific problems in each of the high-risk areas and (2) develops and implements a strategic plan that addresses actions for eliminating the six high-risk areas. This strategic plan should include goals, performance measures, and time frames for completing corrective actions; identify organizations and individuals accountable for accomplishing specific goals; and fully comply with legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Paperwork Reduction Act, and the Clinger-Cohen Act. To help ensure success of the multilevel

strategy, top-level management within DOD needs to be held accountable and have the authority and flexibility to achieve the desired results.

If DOD is successful in attacking the underlying causes of the problems, the Congress should expect to see positive outcomes, including the successful completion of full-scale financial audits; reductions in operation and support costs; and the fielding of major weapon and computer systems that meet cost, schedule, and performance estimates. If DOD's multilevel strategy does not result in the elimination of high-risk areas, the Congress may wish to consider the need for incentives to reach that goal.

## DOD's High-Risk Areas Are Vulnerable to Waste, Fraud, Abuse, and Mismanagement

DOD has severe management weaknesses in six high-risk areas: financial management, information technology, weapon systems acquisition, contract management, infrastructure, and inventory management. Due to its lingering financial management problems, which are among the most severe in government, DOD does not have accurate information to use in managing its budget of over $250 billion and reported $1 trillion in assets. DOD's efforts to develop and modernize its computer systems and networks have yielded poor returns in reducing its operating costs, improving performance, and supporting sound financial management.

DOD continues to generate and support acquisition of new weapon systems that will not satisfy the most critical requirements at the least cost to the government and commit more procurement funds to programs than can reasonably be expected to be available in future defense budgets. Many new weapon systems cost more and do less than anticipated, and schedules are often delayed.

In spite of budget reductions and other changes, DOD's contracting activity remains substantial, amounting to about $110 billion in fiscal year 1995. The risks associated with this level of contracting activity alone are high. The risk increases substantially when this activity is coupled with (1) continuing fundamental changes in the acquisition and contracting processes that have yet to be fully implemented or evaluated and (2) a contract administration and auditing resource base that has already been substantially reduced.

Although it has undergone substantial downsizing in force structure, DOD has not achieved commensurate reductions in operation and support costs. For example, our analysis of the Army depot system showed that the Army is not effectively downsizing its remaining depot maintenance

infrastructure to reduce costly excess capacity. In the case of Army's tactical missile workload, consolidating the workload at the Tobyhanna depot would improve the utilization of the depot's capacity and decrease costs by as much as $27 million annually. Expenditures on wasteful or inefficient infrastructure activities divert limited defense funds from pressing defense needs such as the modernization of weapon systems.

Because of fundamental inefficiencies in inventory management systems and procedures, DOD is vulnerable to wasting billions of dollars on excess supplies. For example, it is for these inefficiencies that we find about one-half of DOD's $69.6 billion inventory is beyond the level needed to support war reserve or current operating requirements, and DOD continues to buy inventory in excess of what it needs.

## Underlying Causes of the High-Risk Areas Have Not Been Fully Addressed

To its credit, DOD has taken actions to correct problems in the high-risk areas and made progress in some of these areas. For example, in response to our recommendations, DOD implemented certain commercial practices in its inventory management area, such as direct vendor delivery for medical and food items. However, even though this and other actions are very important, the task of eliminating the high-risk areas altogether remains to be accomplished. Key to accomplishing this task is attacking the following underlying causes of the high-risk areas:

- Cultural barriers and parochialism limit opportunities for change. Cultural resistance to change and service parochialism have contributed to the difficulty of implementing corrective actions to improve DOD's financial, infrastructure, inventory, and acquisition systems that are at risk. For example, some weapon systems are being developed and produced, even though the Soviet threat upon which they were justified has diminished. It is not unusual for DOD, due to its culture to continually generate and support the acquisition of new weapons, to override the need to satisfy the most critical weapon requirements at minimal cost.
- Incentives for seeking and implementing change are lacking. DOD managers have few incentives to improve the Department's financial, acquisition, and infrastructure management approaches. For example, in DOD's culture, the success of a manager's career depends more often on moving programs and operations through the DOD process rather than on improving the process. The fact that a given program costs more than estimated, takes longer to complete, and does not generate results or perform as promised is secondary to implementing a new program.

- Management data are deficient. DOD decisionmakers are severely affected by the lack of comprehensive and reliable data for measuring program costs and results and making well-informed decisions. For example, better information on the quantity and location of items in the Department's inventory would help prevent DOD managers from procuring additional items at one location that are already on hand at another location. In addition, reliable information would greatly aid DOD officials in resolving problems with erroneous contract payments, weapon system cost overruns, and excessive infrastructure.
- Clear, results-oriented goals and performance measures are lacking. In some cases, DOD's strategic goals and objectives are not linked to those of the military services and defense agencies, and DOD's guidance tends to lack specificity. Moreover, several DOD managers said that the Department's strategic goals are too broad for their organizations to readily align their activities in support of those goals. Without clear, hierarchically linked goals and performance measures, DOD managers lack straightforward road maps showing how their work contributes to attaining DOD's strategic goals and risk operating autonomously rather than collectively.
- Management accountability and follow through have been inadequate. DOD does not routinely link its performance measures to specific organizational units or individuals that have sufficient flexibility, discretion, and authority to accomplish the desired results. In some departments and agencies, DOD's top political and career leaders have not encouraged accountability by providing managers at each level in the organization with the authority and flexibility to obtain those results. At both the organizational and managerial levels, accountability requires results-oriented goals and performance measures through which to gauge progress. This accountability helps to guarantee that daily activities remain focused on achieving the outcomes that DOD is trying to attain.

## DOD Needs a Multilevel Strategy to Eliminate the High-Risk Areas

To eliminate the high-risk areas, DOD needs a multilevel strategy that implements our recommendations to correct specific problems in each of the six high-risk areas and develops a strategic plan for eliminating those areas. This strategic plan should include goals, performance measures, and time frames for completing corrective actions; identify organizations and individuals that are accountable for accomplishing specific goals; and provide for annual progress reports to the Congress on outcomes achieved. In developing the plan, DOD should comply with the legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Paperwork Reduction Act, and the

Clinger-Cohen Act. To help ensure success of the multilevel strategy, top-level management within DOD needs to be held accountable and have the authority and flexibility to achieve the desired results. We believe that the Deputy Secretary of Defense is the appropriate management level to develop and implement such a strategy.

## DOD Needs to Address Our Recommendations

Although DOD's actions on many of our recommendations have resulted in significant financial savings and improvements in DOD's operations, numerous recommendations have not been fully implemented.[1] (See Related GAO Products at the end of this testimony.) In our 1997 high-risk reports, we recommended that

- DOD implement a focused, sustained effort to fully realize meaningful financial management improvements, including integrating accounting and financial management systems, accumulating accurate cost information, resolving problem disbursements, upgrading the financial management workforce and organization, strengthening internal controls, and reengineering business practices;
- DOD establish (1) performance measures to link the use of information technology to improvements in productivity, efficiency, and effectiveness of their operations and (2) a structured process for selecting, controlling, and evaluating their capital investments in technology to maximize mission-related benefits and control risks;
- DOD take much stronger actions to effectively control the influence of the acquisition culture, such as planning weapon programs and resources on a joint mission basis, examining cost and performance tradeoffs among alternatives more rigorously before a particular approach is chosen, making the war fighters responsible for participating in the selection of weapon systems, linking program decisions in a more durable way to DOD's long-term budget, and aggressively pursuing high-risk (breakthrough) technology before weapon system research and development;
- DOD seek to reengineer and streamline its contracting and acquisition processes, including the use of new business process techniques;
- the Secretary of Defense and the Secretaries of the Army, the Navy, and the Air Force consider using a variety of means to achieve infrastructure reductions, including consolidations, privatization, outsourcing, reengineering, and interservicing agreements; and
- DOD (1) establish aggressive milestones for substantially expanding the use of modern commercial practices; (2) provide managers with the tools critical to managing inventory efficiently; and (3) continue to explore

[1]Status of Open Recommendations: Improving Operations of Federal Departments and Agencies (GAO/OP-97-1, Jan. 24, 1997).

other alternatives, such as business case analysis to identify opportunities for outsourcing logistics functions.

## DOD Needs a Strategic Plan

To attack the underlying causes of the high-risk areas, DOD also needs to develop a strategic plan that establishes results-oriented goals, performance measures, and time frames for completing corrective actions; identifies organizations and individuals that are responsible for accomplishing specific goals; and provides for annual progress reports to the Congress on outcomes achieved. In developing the plan, DOD should comply with the following legislation:

- The expanded Chief Financial Officers Act of 1990 (P.L. 101-576) provides the framework for identifying and correcting financial management weaknesses and reliably reporting on the results of financial operations.
- The Government Performance and Results Act of 1993 (P.L. 103-62) emphasizes managing for results and pinpointing opportunities for improved performance and increased accountability.
- The Paperwork Reduction Act of 1995 (P.L. 104-13) requires federal agencies to use information resources to improve the efficiency and effectiveness of their operations and fulfillment of their missions. As such, it is the overarching statute dealing with the acquisition and management of information resources.
- The Clinger-Cohen Act of 1996 (P.L. 104-106) focuses on the application of information resources in supporting agency missions and improving agency performance and sets forth requirements for improving the efficiency and effectiveness of operations and the delivery of services to the public through the effective use of information technology. Specifically, the act requires that DOD establish performance measures that measure how well its information technology supports its missions and programs and that evaluations be made of the results achieved from its information technology investments.

This strategic plan and annual progress reports should be presented to the Congress to provide a basis for overseeing DOD's improvement efforts and allow other stakeholders to agree on what actions should happen and when they should occur. It is important that the Congress be adequately informed of DOD's plans and outcomes and hold top officials accountable for implementing the reforms needed to eliminate all six areas from the high-risk category.

## The Congress Should Expect Certain Outcomes and Precise Measures of Performance

If DOD is successful in eliminating the underlying causes of the six high-risk areas, the Congress should expect to see, over time, outcomes showing DOD's progress. These outcomes could include (1) the successful completion of full-scale financial audits, a primary catalyst for increasing the reliability of financial data and improving financial operations; (2) the development of information technology investment processes and performance measures that link return-on-investment dollars to mission and program objectives; (3) the acquisition of major weapon systems within fiscal realities and the fielding of weapon systems without excessive cost overruns, schedule delays, or performance shortfalls; (4) the utilization of proven acquisition and contracting processes that increase accountability and result in cost savings and other benefits; (5) reductions in operation and support activities that are commensurate with force structure reductions; and (6) significant reductions in the amount of unneeded inventory and annual expenditures for new inventory.

## Incentives May Be Needed

If DOD does not make progress in eliminating the underlying causes of the high-risk areas, the Congress may wish to consider the need for incentives to stimulate change. We believe that, one of the best incentives the Congress can apply to foster results-oriented management is to use performance measurement data in its policy, program, and resource allocation decisions.[2] Another incentive could be to allow DOD to use savings from eliminating waste in the high-risk areas to further improve operations or satisfy other defense priorities, such as modernization, readiness, and quality-of-life needs.

# Long-Standing Weaknesses in Financial Management

Long-standing weaknesses in DOD's financial operations continue to severely limit the reliability of the financial information it provides to the Congress. These weaknesses also result in wasted resources that undermine DOD's ability to carry out its stewardship responsibilities, which in fiscal year 1997 included a budget of over $250 billion and $1 trillion in assets. No military service or major defense component has withstood the scrutiny of an independent financial statement audit. DOD has acknowledged many weaknesses and has a number of financial management reform initiatives underway to address them. However, it still has a long way to go to meet the challenges of managing its vast and

[2]Executive Guide: Effectively Implementing the Government Performance and Results Act (GAO/GGD-96-118, June 1996).

complex operations with the business-like efficiency demanded by the Congress and the public.

## Financial Management Weaknesses Fall Into Six Areas

In its annual reports to the President and the Congress, DOD acknowledged a series of financial management problems confronting the Department, including billions of dollars in disbursements not matched to specific obligations, overpayments to contractors, Anti-Deficiency Act violations, and issuance of paychecks to soldiers after their discharge. While these signs of DOD top leadership acknowledgement of the Department's financial management problems are encouraging, DOD must effectively address challenges in the following six critical areas if its envisioned financial reforms are to be realized.

- Accounting and financial management systems need to be integrated. DOD's existing accounting and financial management systems are not integrated and lack a standard general ledger. An integrated, general ledger controlled system is necessary to provide oversight and control to ensure accurate and complete accounting for DOD's resources. Under an integrated system structure, DOD's accounting, finance, logistics, personnel, and budgetary systems would be closely tied together. However, DOD acknowledged that its operations are constrained by the military services operating unique systems, many of which are incompatible. An example of the effect of DOD's nonintegrated systems is in the inventory management area. Auditors found that DOD components purchased unneeded materials, at least in part because DOD's accounting and logistics systems were not integrated.
- Accurate cost data are needed. DOD has acknowledged fundamental problems with the Department's ability to accumulate reliable cost data. DOD does not have accurate cost data for almost all of its assets, such as inventories, equipment, aircraft, and missiles. In addition, DOD cannot accumulate reliable information on the costs of its business activities and critical operations, such as the cost associated with maintaining its weapon systems in a high state of readiness, or costs related to its contingency operations. It is critical that managers have accurate information on actual costs to consider when making decisions, such as whether to replace or upgrade weapon systems.
- Disbursement problems need resolution. DOD cannot confirm that disbursements are charged to the correct appropriation accounts and that billions of dollars in disbursements can be promptly or accurately matched with related obligations. DOD has recognized this as a major area of concern and has a number of initiatives underway to reduce current

problem disbursements. However, until the Department's problems in this area are corrected, its ability to detect and correct illegal acts and ensure that funds are spent as directed by the Congress will continue to be impaired.

- Financial management workforce and organization need upgrading. DOD faces a considerable challenge if it is to put in place a quality, professional financial management workforce with clear organizational accountability. DOD has acknowledged that, no matter how skilled its financial personnel, its manifold financial failures reflect a large, complex, antiquated bureaucratic organization structure. For example, the Department has stated that a dozen organizations are involved in making a single progress payment on a complex weapon system. In addition, deficiencies in DOD's financial workforce, such as the lack of accounting experience, competencies, and adequate training, have diminished its effectiveness. For example, only 58 percent of the key managers at critical DOD accounting locations had more than the minimum number of accounting hours necessary to be classified as an accountant in the federal government.
- Internal controls need strengthening. Many basic required control procedures are either not in place, or are not followed, such as critical reconciliations, physical counts of inventories, and reviews of abnormal balances. In its reporting under the Federal Managers' Financial Integrity Act, DOD acknowledged over 30 material control weaknesses across a broad spectrum of its operations. Adherence to basic controls is necessary to help ensure that DOD's assets are properly safeguarded against unauthorized acquisition, use, or disposition. For example, pervasive weaknesses in DOD's general computer controls place it at risk of improper modification, theft, inappropriate disclosure, and destruction of sensitive personnel, payroll, disbursement, or inventory information. Also, DOD paid millions of dollars in unauthorized military payroll payments because basic control procedures were not followed.
- Financial processes need reengineering. DOD's financial management operations are plagued with duplicative processes and business practices that are complex, slow, and error-prone. For example, before DOD decided to reengineer its travel processes, they were extremely complicated with over 700 processing centers and 1,300 pages of regulations. The processes required DOD employees to go through some 40 steps to get their travel authorized and reimbursed. DOD acknowledged that it confronts decades-old problems deeply grounded in the bureaucratic history and operating procedures developed piecemeal over a period of decades to accommodate different organizations, each with its own policies and

procedures. Without reengineering, DOD will have little chance of radically improving these cumbersome and bureaucratic processes.

## Initiatives to Address Deficiencies in Financial Management and Reporting

Since 1990, we and DOD auditors have made over 400 recommendations aimed at correcting the Department's most pressing financial management weaknesses. The past few years have been marked by DOD's financial management leadership recognizing the importance of tackling the broad range of problems confronting the Department in this area. Through his 5-Year Plan, the Chief Financial Officer has put in place a vision statement to guide DOD's financial management reform efforts. As a result, the importance of greater financial accountability is now clearer throughout DOD.

DOD has begun a number of short- and long-term initiatives intended to address the Department's long-standing financial management weaknesses. For example, DOD is working to resolve its problems in accounting for disbursements, including short-term initiatives focusing primarily on preventing additional problem disbursements. Long-term initiatives include projects to consolidate and standardize selected financial systems and DOD-wide data, including implementing the U.S. Government Standard General Ledger, a basic requirement. In addition, DOD has begun several efforts to enhance the professional skills of its financial personnel and has consolidated responsibility for accounting systems development into the Defense Accounting System Program Management Office.

As it looks to the future, DOD must effectively address challenges in all six critical areas—systems, cost accounting, disbursements, personnel, internal controls, and business processes—if its envisioned financial reforms are to realize meaningful financial management improvements. Specifically, DOD must (1) develop a comprehensive financial systems inventory and a target financial management systems architecture, including systems interfaces and data flows; (2) ensure that the Department's financial management systems improvement effort has a comprehensive, DOD-wide scope and sufficient top management involvement and support; (3) determine the appropriate numbers and skills of personnel needed to implement financial reforms and utilize an independent board of experts to advise DOD on its reform efforts; (4) address deep-rooted organizational emphasis on maintaining "business as usual" across the Department; and (5) ensure that its initiatives intended to address the Department's problem disbursements provide for

establishing base line data and comprehensive reporting standards and controls, and prioritizing the various initiatives to ensure that resources are allocated to the most severe problem disbursement areas. It will take a focused, sustained effort for DOD to fully resolve these challenges.

## Improvements Needed in Information Resources Management

As with most agencies, DOD faces significant challenges in managing its information resources. However, the Department's challenges are amplified by the sheer size of its technology investment, the vast number of systems (over 10,000) put in place to provide mission support, and the lack of a clearly articulated and directed management approach to dealing with the problems. Our work over the past several years has highlighted problems in the department's control over investment dollars, managing risks associated with computer hacking, and—most recently—dealing with the challenges of the year 2000 problem.

The Paperwork Reduction Act and the Clinger-Cohen Act provide the framework for managing investments in information technology. These acts require, in part, a strong Chief Information Officer organization, defined controls over information technology investment, and performance measures that better link information technology investment decisions to program results. Proper implementation by DOD could result in reducing the risks we have identified.

## Technology Investment Results Have Been Disappointing

DOD spends billions yearly on information technology—about $10 billion yearly on business systems alone—to provide support for every aspect of its operations. In 1989, the Department started its Corporate Information Management initiative to take better advantage of its information technology investments by streamlining operations and implementing standard information systems supporting such important business areas as supply distribution, material management, personnel, finance, and transportation. The results have not been as anticipated by DOD. While DOD projected $36 billion in savings, its failure over the past 8 years to implement sound business practices to control investment dollars and link system modernization practices to business process improvement efforts has led to an outlay of over $20 billion with no corresponding savings in return.

DOD is now concentrating on its migration projects, which are being carried out to reduce the number of legacy systems providing similar functions by "migrating" to a fewer number of more efficient systems

providing the same or enhanced service. We have found that billions of dollars have been spent on these projects with little analytical justification. Rather than relying on a rigorous decision-making process for information technology investments—as used in leading organizations, DOD is making system selections without appropriately analyzing costs, benefits, and technical risks; establishing realistic project schedules; or considering how business process improvements could affect technology investments. For example, in material management, DOD abandoned its system modernization strategy after spending over $700 million. In the transportation area, DOD made some investments that are likely to result in a negative return on investment.[3]

## Computer Systems and Data Are Vulnerable to Disruption and Unauthorized Disclosure

Malicious attacks on computer systems are an increasing threat to our nation's welfare. We have found throughout government that billions of dollars in assets are at risk and vast amounts of sensitive data are vulnerable to unauthorized disclosure. DOD, with its thousands of integrated systems and sensitive data, provide an inviting target to computer hackers. In May 1996, we reported that DOD computer systems may have experienced as many as 250,000 attacks during 1995 with over 60 percent of these attacks successful in gaining access.

## DOD Faces Challenges of the Year 2000 Problem

After midnight on January 1, 2000, many DOD and defense contractor computer systems will either fail to run or malfunction simply because the equipment and software were not designed to accommodate the change of the date to the new millennium. If not corrected, this problem has the potential to severely impact key operations, such as command and control, mission planning, supply and maintenance support, payroll, and contract management. This problem is rooted in the way dates are recorded and computed in those computer systems that typically use two digits to represent the year, such as "97" representing 1997, to conserve electronic data storage and reduce operating costs. Thus, the year 2000 will be indistinguishable from 1900, 2001 from 1901, and so on, in these systems. As a result of this ambiguity, defense systems or application programs that use two-digit dates to perform calculations, comparisons, or sorting may generate incorrect results or may not work at all when working with dates after 1999.

[3]Defense IRM: Critical Risks Facing New Material Management Strategy (GAO/AIMD-96-109, Sept. 6, 1996) and Defense Transportation: Migration Systems Selected Without Adequate Analysis (GAO/AIMD-96-81, Aug. 29, 1996).

There is no easy fix for this problem. Every line of software code, operating system, and piece of computer hardware must be checked. As a result, DOD's year 2000 program will likely be the largest and most complex system conversion effort the Department has ever undertaken. Strong and effective program management through the five phases needed to address the year 2000 problem (awareness, assessment, renovation, validation, and implementation) are essential if defense agencies are to be successful. DOD has a formidable task: it has an infrastructure of thousands of systems, millions of lines of software, more than 2 million computers, and over 10,000 networks that must all be assessed—and time is running out. DOD has not yet fully completed the assessment phase, and the more difficult and time-consuming phases of renovation, validation (testing), and implementation are yet to come. We estimate that defense agencies must complete the renovation phase by the end of 1998 at the latest if they are to allow sufficient time for the validation and implementation phases.

## Initiatives to Improve Return on Information Technology Investments

Our reports and congressional hearings chronicled numerous system development efforts that suffered from multimillion dollar cost overruns, schedule slippages measured in years, and dismal mission-related results. Recognizing the urgent need for improvement, the Congress passed key reforms in information technology management. The Paperwork Reduction Act and Clinger-Cohen Act directed agencies to implement a framework for modern technology management that is based on practices followed by leading public and private sector organizations that have successfully used technology to dramatically improve performance and meet strategic goals. DOD has plans to improve its current Planning, Programming, and Budgeting System and incorporate the management improvements that have been dictated by congressional actions, such as the Government Performance and Results Act, the Paperwork Reduction Act, and the Clinger-Cohen Act. We believe that if DOD is to achieve success in this area, which has proven to be extremely difficult in the past, it will need to have incentives to motivate decisionmakers into making the necessary changes over its management of information technology investments.

We made specific recommendations to DOD for mitigating risks and improving its management framework and controls in areas such as information management, information technology investment, system development, and technical infrastructure. Although DOD has made some progress, the level of improvement has not yet been sufficient to bring the problems under control.

## Costly and Inefficient Processes for Weapon Systems Acquisition

Even though DOD's expenditures have produced many of the world's most capable weapon systems, its processes for acquiring weapon systems have often proven costly and inefficient. Although DOD's leadership has emphasized its commitment to reforming its processes, wasteful practices still add billions of dollars to defense acquisition costs.

### Many Weapon Systems Cost More and Do Less Than Anticipated

Despite its efforts to reform defense weapon systems acquisition, DOD continues to (1) generate and support acquisition of new weapon systems that do not satisfy the most critical weapon requirements at minimal cost and (2) commit more procurement funds to programs than can reasonably be expected to be available in future defense budgets. In addition, many new weapon systems cost more and do less than anticipated, and schedules are often delayed. Moreover, the need for some of these costly weapons, particularly since the collapse of the Soviet Union, is questionable. Pervasive problems persist regarding questionable requirements and solutions that are not the most cost-effective available; unrealistic cost, schedule, and performance estimates; questionable program affordability; and the use of high-risk acquisition strategies. Our work indicates the following:

- Some requirements and solutions are questionable and not the most cost-effective. Although the military services conduct considerable analyses in justifying major acquisitions, these analyses can be narrowly focused and may not fully consider alternative solutions, including the joint acquisition of systems with the other services. In addition, because DOD does not routinely develop information on joint mission needs and aggregate capabilities, it has little assurance that decisions to buy, modify, or retire systems are sound. Our reviews of air power mission areas found that some planned modernization programs will add only marginally to already formidable capabilities, and the need for other weapon systems has been lessened by the changed national security environment.
- Cost, schedule, and performance estimates are unrealistic. To keep cost estimates as low as possible and present attractive milestone schedules, DOD program sponsors have used unreasonable assumptions about the pace and magnitude of the technical effort, material costs, production rates, and savings from competition. The fact that a given weapon system costs more than estimated, takes longer to field, and does not perform as promised is secondary to fielding a new system.
- Program affordability is questionable. DOD's tendency to overestimate the funding that would be available in the future, coupled with the tendency to underestimate program costs, have resulted in the advent of more

programs than can be executed. As a result, DOD often has to reduce, delay, and stretch out programs, substantially increasing the cost of each system. In addition, numerous problems exist with DOD's budgeting and spending practices for weapon system acquisitions. For example, our review of the Future Years Defense Program found no significant net infrastructure or acquisition savings to DOD between fiscal years 1997 and 2001. Nonetheless, DOD is pursuing a number of major system acquisition programs on the assumption that such savings will materialize.

- Acquisition strategies are high risk. DOD continues its practice of beginning production of a weapon system before development, testing, and evaluation are complete. When this strategy is used, critical decisions are made without adequate information about a weapon's demonstrated operational effectiveness, reliability, logistics supportability, and readiness for production. Also, by rushing into production before critical tests have been successfully completed, DOD has purchased weapon systems that do not perform as intended. These premature purchases have resulted in lower-than-expected availability for operations and have often led to expensive modifications.

In today's national security environment, proceeding with low-rate production without demonstrating that the system will work as intended should rarely be necessary. Nevertheless, DOD still begins production of many major and secondary weapons without first ensuring that the systems will meet critical performance requirements. For example, the F-22 aircraft program involves considerable technical risk because it embodies technological advances that are critical to its operational success. Nevertheless, DOD plans to begin producing the F-22 aircraft well before beginning initial operational testing and commit to the production of 70 aircraft at a cost of over $14 billion before initial operational testing is complete.

## Initiatives to Reform the Weapon Acquisition System

Since 1990, we reported that cultural changes were needed to (1) control interservice competition and self-interest that have led to the acquisition of unnecessary, overlapping, or duplicative capabilities; (2) discourage the overselling of programs through optimistic cost, schedule, and performance estimates and the use of high-risk acquisition strategies; and (3) limit the incorporation of immature technologies into new weapons to reduce the risk of technological failures. These problems were discussed in detail in our cross-cutting reports[4] and reports on individual programs.

[4]Weapons Acquisition: A Rare Opportunity for Lasting Change (GAO/NSIAD-93-15, Dec. 1992) and Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, Nov. 21, 1994).

DOD's leadership has emphasized its commitment to reforming its weapon system acquisition processes. DOD's goal is to become the world's smartest buyer, continuously reinventing and improving the acquisition process while taking maximum advantage of emerging technologies that enable business process reengineering. Concerning "what to buy," DOD is focusing its efforts on (1) greater reliance on commercial products and processes and (2) more timely infusion of new technology into new or existing systems. Concerning "how to buy," DOD's efforts have been directed at, among other things, increasing teamwork and cooperation, encouraging risk management rather than risk avoidance, reducing reporting requirements, and reducing layers of review and oversight that do not add any value.

DOD is also striving to reduce costs through an initiative known as "cost as an independent variable." This initiative's assumption is that, once the system performance and target cost are decided, the acquisition process will make cost more a constant and less a variable. This approach to developing new systems is more consistent with commercial practices, which use market forces to determine the price at which a new system can be offered. Even though these initiatives are commendable, the fundamental reforms needed to improve the weapon systems acquisition process have not yet been formulated or instituted by DOD.

## Long-Standing Weaknesses in Contract Management

Over the last few years, changes have occurred in the defense contracting environment—both within DOD and the private contractor community. DOD, recognizing that it could no longer afford to conduct business as it had in the past, began broad-based changes to its acquisition and contracting processes. However, these changes are not yet complete.

### Contract Management System Needs to Be Improved and Simplified

Despite budget reductions and other changes, DOD's contracting activities remain substantial, amounting to about $123 billion in fiscal year 1996. The risk of waste, fraud, abuse, and mismanagement increases when these activities are coupled with the following weaknesses:

- Contract payment process is costly and prone to errors. DOD continues to pay contractors millions of dollars erroneously as a result of financial management and accounting control problems. In recent years, we have reported on DOD's numerous problems in making accurate payments to defense contractors and identified millions of dollars in government overpayments, underpayments, and interest on late payments. Moreover,

as of May 1996, DOD reported that its problem disbursements totaled $18 billion.

- Cost-estimating systems are not reliable. We and the Defense Contract Audit Agency continue to find significant problems with contractors' cost-estimating systems. Although DOD administrative contracting officers are responsible for determining the adequacy of the contractors' cost-estimating systems and requiring correction if the systems are deficient, we found that contracting officers were reluctant to use all available sanctions to encourage contractors to correct deficiencies. The failure to correct these deficiencies creates a variety of problems for DOD, including increased costs and delays in contract award.
- Participation in DOD's Voluntary Disclosure Program has been limited. Defense contractors' participation in the Voluntary Disclosure Program has been relatively limited, and the dollar recoveries have been modest. From the program's inception in 1986 through September 1994, DOD reported that, of the thousands of defense contractors, 138 made 325 voluntary disclosures of potential procurement fraud. In addition, DOD reported recoveries from these disclosures to be $290 million. However, this $290 million figure is overstated because it included $75 million in premature progress payments and amounts from disclosures made before the program.[5]
- Growth in workload requires a new management approach. DOD plans to increase its procurement budget from $43 billion in fiscal year 1996 to $60 billion by fiscal year 2001. As procurement activity increases, the amount of contracting and the demands for contract administration and audits are also likely to increase. However, unlike future procurement budgets, contract administration and audit resources are expected to be cut back further. By fiscal year 2001, staffing at the Defense Contract Management Command and the Defense Contract Audit Agency are expected to be reduced to around 12,650 and 4,200, respectively, a decrease of about 41 and 32 percent, respectively, from fiscal year 1991 levels.[6] DOD will need to be creative in finding ways to meet an expected increase in demand for contract oversight and be more efficient in using its existing resources.

[5]DOD Procurement: Use and Administration of DOD's Voluntary Disclosure Program (GAO/NSIAD-96-21, Feb. 6, 1996).

[6]The Defense Contract Management Command administers defense contracts, and the Defense Contract Audit Agency audits them.

## Initiatives to Strengthen DOD's Contract Management

DOD has acknowledged the necessity to improve its contract management through initiatives such as testing and adopting some best practices. In the long term, DOD is developing procurement and payment systems that are linked by sharing common data. This linkage is expected to allow one-time entry of contract data critical to making correct payments. DOD plans to implement the payment system in fiscal year 1999 and make both systems fully operational in 2004. In the meantime, DOD is enhancing its current technologies to further automate the payment process. DOD is also testing streamlined payment practices.

In addition, DOD has taken steps to strengthen oversight of its contractors' estimating systems. Specifically, it issued new internal guidance for monitoring contractors' cost-estimating systems and established positions within Defense Contract Management Command district offices to serve as focal points for overseeing the status of contractors' cost-estimating systems. DOD now requires a biannual status report from administrative contracting officers on the status of outstanding deficiencies in contractors' estimating systems. According to these reports, the number of estimating system deficiencies has declined. However, Defense Contract Audit Agency reports continue to identify proposals that lack complete, accurate, and current data. According to the Agency, its audits of proposals saved $5.3 billion over the last 3 fiscal years.

# Wasteful and Inefficient Infrastructure Activities

Despite actions over the last 10 years to reduce operation and support costs, DOD has wasted billions of dollars annually on inefficient and unneeded infrastructure activities. Although DOD has recently downsized its force structure substantially, it has not achieved commensurate reductions in support activities. These activities, which DOD generally refers to as its support infrastructure, include maintaining installation facilities, providing nonunit training to the force, providing health care to military personnel and their families, repairing equipment, and buying and managing spare part inventories. DOD is faced with transforming its Cold War operating and support infrastructure in much the same way it has been working to transform its military force structure. Making this transition is a complex, difficult challenge that will affect hundreds of thousands of civilian and military personnel at activities across the nation and overseas.

## Excess Support Infrastructure Diverts Limited Defense Funds

DOD officials have repeatedly recognized the importance of using resources for the highest priority operational and investment needs rather than maintaining unneeded property, facilities, and overhead. Expenditures on

wasteful or inefficient activities divert limited defense funds from pressing defense needs, such as the modernization of weapon systems. DOD has programmed reductions in installation support funding; however, overall infrastructure funding is projected to remain relatively constant through 2001.

Our work has identified the following areas in which infrastructure activities can be eliminated, streamlined, or reengineered to be made more efficient:

- Laboratory infrastructure includes excess capacity. Although studies have shown that DOD's laboratories and centers have excess capacity, the studies have generally recommended management efficiencies rather than infrastructure reductions. Despite four base realignment and closure rounds, DOD states that its research and development laboratory infrastructure still has an excess capacity of approximately 35 percent.
- Training costs could be reduced. Since 1972, DOD has obtained physicians from two sources: the Health Professional Scholarship Program and DOD's Uniformed Services University of Health Sciences. However, the cost to educate a physician in DOD's university program is more than twice as much as the $1.5 million cost of providing scholarships to students in civilian medical schools. DOD pays tuition, fees, and a monthly stipend for students enrolled in civilian medical schools, and the students are obligated to serve 1 year of active duty for each year of benefits. Medical students in DOD's university program are on active duty military service, receive pay and benefits while attending medical school, and incur a 10-year service obligation.
- Depot maintenance infrastructure includes excess capacity. At the time of the 1995 base realignment and closure process, the DOD depot system had an excess capacity of 40 percent. In addition, DOD's efforts to shift workloads to the private sector without downsizing overall depot infrastructure will exacerbate existing excess capacity problems. For example, our analysis of the Army depot system showed that the Army is not effectively downsizing its depot maintenance infrastructure. Its plans to privatize in-place workloads at closing facilities rather than transferring them to remaining underutilized facilities would increase excess capacity in Army depots from 42 to 46 percent, thus increasing the Army's maintenance depot costs.
- Overhead costs for transportation services are excessive. DOD's overhead costs for transportation services are frequently two to three times the basic cost of transportation. The U.S. Transportation Command retains an outdated and inefficient, mode-oriented organizational structure with

some collocated facilities. Each separate component command incurs operation and support costs, and customers receive bills from each component command for each mode of transportation rather than a single intermodal bill from only one component. The separate billing systems are inefficient, adding people and costs to the process.

## Initiatives to Reduce Inefficient and Unneeded Infrastructure Activities

Although we have not completed an in-depth analysis of all the categories of infrastructure, our work to date has identified numerous areas in which infrastructure activities can be eliminated, streamlined, or reengineered to be made more efficient. For example, we previously identified 13 options that, according to the Congressional Budget Office, could result in savings of about $11.8 billion during fiscal years 1997 through 2001. However, DOD found that infrastructure reductions are a difficult and painful process because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs. Breaking down cultural resistance to change, overcoming service parochialism, and setting forth a clear framework for a reduced infrastructure are key to avoiding waste and inefficiency.

# Wasteful Inventory Management Systems

DOD has wasted billions of dollars on excess supplies because inherent in DOD's culture is the belief that it is better to overbuy items than to manage with just the amount of stock needed. If DOD had used effective inventory management and control techniques and modern commercial inventory management practices, it would have had lower inventory levels and avoided the burden and expense of storing excess inventory. DOD has clearly had some success in addressing its inventory management problems, but much remains to be done.

## Excess Inventory Costs Billions of Dollars

DOD has reduced its inventory from $92.5 billion in 1989 to $69.6 billion in 1995, a $22.9 billion reduction. However, DOD has not been as aggressive as possible in implementing modern commercial practices. It has addressed only about 3 percent of the items for which commercial practices could be used and is still in the midst of changing its inventory management culture. About one-half of DOD's $69.6 billion inventory is beyond the level needed to support war reserve or current operating requirements. Additionally, DOD spends millions of dollars each year to manage and maintain unnecessary inventory. DOD still lacks adequate oversight of its inventory, financial accountability remains weak, and requirements continue to be overstated. Our work shows the following:

- Visibility over inventory is not adequate. The lack of adequate visibility over operating materials and supplies substantially increases the risk that millions of dollars will be unnecessarily spent. For example, in August 1996, we reported that Navy managers did not have adequate visibility over $5.7 billion in operating materials and supplies on board ships and at 17 redistribution sites. We estimated that because of the lack of oversight in the first half of 1995, item managers ordered or purchased items in excess of operating level needs and that as a result, the Navy will incur unnecessary costs of about $27 million.
- Requirements are overstated. DOD commonly overstates requirements and understates the amount of inventory on hand when budgeting for and buying spare parts and supplies because of questionable policies for determining needs and poor accountability. The Defense Logistics Agency and the Navy stock millions of dollars of unnecessary "insurance items" (i.e., parts that are not expected to fail through normal usage). The unnecessary inventories accrued because these DOD components do not periodically review insurance items to confirm that they are mission essential and stocked in appropriate quantities. In addition, DOD could reduce its lead time by 25 percent over a 4-year period and save about $1 billion by renewing its emphasis on prompt implementation of its 1990 lead time reduction initiatives, periodically validating and updating old data for long lead time items, and considering lead time reductions as a factor in deciding whether to continue purchasing spare parts from the prime contractor or the manufacturer.
- Financial accountability and internal controls are weak. DOD lacks financial accountability and control over its inventory. The Secretary of Defense identified several financial and internal control weaknesses within DOD, such as (1) inventory systems that are not integrated or cannot respond rapidly to change, (2) difficulties in reconciling physical inventories and valuating properties and equipment, and (3) lack of indicators that measure performance and costs.

## Initiatives to Eliminate Wasteful Inventory Management Systems

Since 1990, we have recommended major changes in all levels of DOD's inventory management system. We reported that DOD's top managers needed to take long-range actions to (1) change the organizational culture to eliminate the overstocking of items, (2) increase the use of commercial practices, (3) establish and monitor improved performance measures that stress cost-effectiveness and inventory reductions, and (4) improve the computer systems used in inventory management. Even though we continue to see some improvement, DOD has made little overall progress in

correcting systemic problems that have traditionally resulted in large unneeded inventories.

DOD has acknowledged the necessity to change its inventory management culture but has been slow in taking steps to do so. For example, DOD has been slow to implement its plans for improving asset visibility in such areas as in-transit assets, retail-level stocks, and automated systems. The implementation of DOD's asset visibility plans was expected to be completed by 1996, but will not occur until 2001. In addition, the Defense Logistics Agency has implemented, in a limited manner, certain commercial practices, such as direct vendor delivery for medical and food items. However, this initiative addresses only about 3 percent of the items for which direct vendor delivery could be used. Because of the lack of progress with some of the key initiatives, it has become increasingly difficult for inventory managers to oversee DOD's multibillion dollar inventory supply system efficiently and effectively.

## Underlying Causes of the High-Risk Areas Have Not Been Fully Addressed

Our high-risk reports indicate that DOD has made progress in addressing specific problems within each of the six high-risk areas but that the key underlying causes of these problems have not been effectively addressed. These causes include cultural resistance to change and service parochialism, inadequate incentives for seeking change, lack of comprehensive and reliable data, lack of results-oriented goals and performance measures, and lack of management accountability for correcting problems and following through to confirm performance results.

### Cultural Barriers and Parochialism Limit Change

Cultural resistance to change, service parochialism, and public and congressional concern about the effects on local communities and economies have contributed to the difficulty of improving DOD's financial, infrastructure, inventory, and acquisition processes and systems that are at risk. For example, DOD officials have repeatedly recognized the importance of using resources for the highest priority operations and investment needs rather than maintaining unneeded properties, facilities, and overhead. However, DOD found that infrastructure reductions are a difficult and painful process because achieving significant cost savings requires up-front investments, the closure of installations, and the elimination of military and civilian jobs. The 1988, 1991, and 1993 base realignment and closure rounds produced decisions to fully or partially close 70 major domestic bases and resulted in a 15-percent reduction in

plant replacement value. DOD's goal during the 1995 base realignment and closure round was to reduce the overall domestic base structure by a minimum of another 15 percent, for a total 30-percent reduction in DOD-wide plant replacement value. However, the 1995 closures and realignments will increase the total reduction to approximately 21 percent, or 9 percent short of DOD's goal.

In addition, some weapon systems are being developed and produced, even though the Soviet threat upon which they were justified has diminished. The underlying cause of this problem is DOD's prevailing culture, which continually generates and supports the acquisition of new weapons. Inherent in this culture are powerful incentives and interests that influence and motivate the behaviors of participants in the process, including DOD components, the Congress, and industry. It is not unusual for these incentives and interests to override the need to satisfy the most critical weapon requirements at minimal cost. Furthermore, in the inventory management area, DOD's culture believed that it was better to overbuy items than to manage with just the amount of stock needed. As a result of this and other inventory management weaknesses, about one-half of DOD's current inventory of spare parts, clothing, medical supplies, and other secondary inventory items is not needed to support war reserves or current operating requirements.

DOD has also acknowledged that its operations are constrained by the military services' unique operating processes and systems, many of which are incompatible. For example, the lack of integration between DOD's accounting and logistics systems has contributed to the purchasing of unneeded materials.

## Lack of Incentives for Seeking and Implementing Change

Traditionally, DOD has focused most of its attention on justifying its need for funding rather than on the outcomes that its programs produced. DOD generally measures its performance by the amount of money spent, number of people employed, or number of tasks completed. Also, incentives for DOD decisionmakers to implement changed behavior have been minimal or nonexistent. However, the changing national security threat and increasing fiscal constraints require that these issues be addressed. Regardless of the specific actions DOD decisionmakers take to effect change, we believe the objectives of the actions should (1) break down parochialism and award behavior that meets DOD goals and (2) develop incentives that motivate decisionmakers to initiate and implement efforts that are consistent with better program outcomes.

Congressional incentives can include fostering results-oriented management and using performance measurement data when making resource allocation decisions.

DOD managers have few incentives to change their behaviors to improve the Department's financial, acquisition, and infrastructure management approach. In DOD's culture, the success of a manager's career depends more on moving programs and operations through the DOD process rather than on achieving better program outcomes. As a result, the desire of managers to keep cost estimates as low as possible and present attractive milestone schedules encourages the use of unreasonable assumptions about the pace and magnitude of the effort, material costs, production rates, savings, and other factors. Accordingly, overselling a program works in the sense that programs are started, funded, and eventually fielded. The fact that a given program costs more than estimated, takes longer to complete, and does not generate results or perform as promised is secondary to fielding a new, improved program.

## Lack of Comprehensive and Reliable Data

DOD's financial management problems result in a lack of visibility over a substantial portion of its resources. Correction of these widespread and severe financial management problems is critical to the resolution of DOD's high-risk areas. Reliable financial management information would greatly aid the resolution of problems with tracking computer system costs and benefits, weapon system cost overruns, erroneous contract payments, excessive infrastructure, and unneeded inventories.

DOD decisionmakers are severely affected by the lack of comprehensive and reliable data for measuring program costs and results and making well-informed decisions. For example, better information on the quantity and location of items in its inventory would help prevent DOD managers from procuring additional items at one location that are already on hand at another location. In addition, the lack of complete information on the costs incurred to acquire and operate weapon systems has caused DOD managers to initiate more weapon programs than the Department can execute as planned. To address funding realities, DOD often reduces, delays, or stretches out programs—substantially increasing the cost of each weapon system. More reliable and relevant financial data would enable DOD to make more informed decisions for its programs.

## Lack of Clear, Results-Oriented Goals and Performance Measures

In some cases, DOD's strategic goals and objectives are not linked to those of the military services and defense agencies, and DOD's guidance tends to lack specificity. Moreover, several DOD managers said that DOD's strategic goals were too broad for their organizations to readily align their activities in support of those goals. Without clear, hierarchically linked goals and performance measures, DOD managers lack straightforward road maps showing how their work contributes to attaining DOD's strategic goals, and they risk operating autonomously rather than collectively. For example:

- According to Atlantic Fleet officials, the Fleet's goals were only remotely connected to one of DOD's goals—to provide flexible, ready military structure.
- The military services' analyses in justifying weapon system acquisitions can be narrowly focused and may not fully consider alternative solutions, including the joint acquisition of systems with the other services. In addition, because DOD does not routinely develop information on joint mission needs and aggregate capabilities, it has little assurance that decisions to buy, modify, or retire weapon systems are sound. In the air power mission area, some planned modernization programs will add only marginally to already formidable capabilities, and the need for other capabilities has been lessened by the changed national security environment.
- DOD has not developed performance measures that would allow it to track whether its efforts to modernize and optimize its central telecommunications program—the Defense Information Systems Network—are achieving their goals. Without this information, DOD has no way of knowing whether it will be spending billions of dollars acquiring, operating, and maintaining network facilities and services that efficiently and effectively meet its needs.

## Lack of Management Accountability and Follow Through

DOD does not routinely link its performance measures to specific organizational units or individuals that have sufficient flexibility, discretion, and authority to accomplish the desired results. In some departments and agencies, DOD's top political and career leaders have not encouraged accountability by providing managers at each level in the organization with the appropriate authority and flexibility to obtain those results. At both the organizational and managerial levels, accountability requires results-oriented goals and appropriate performance measures through which to gauge progress. This accountability helps to guarantee that daily activities remain focused on achieving the outcomes that DOD is trying to attain.

The Government Performance and Results Act, with its statutory planning and reporting requirements, provides the possibility that the commitment of DOD's top management to improving performance results will be sustained. Nonetheless, DOD experiences suggest that top management does not have a proactive, consistent, and continuing role in building capacity, creating incentives, and integrating daily operations for achieving performance goals. For example, DOD decisionmakers have recognized the urgent need to improve the Department's financial management practices but have not created and maintained the momentum for implementing reform.

Sustaining top management commitment to performance goals is a challenge for DOD because of the general turnover rate among political appointees. In 1994, we reported that the median tenure of top political appointees in the Office of the Secretary of Defense was 1.7 years.[7] We also found that mean vacancy periods for top positions in the Departments of the Air Force and the Navy were 9 and 11 months, respectively. As a result, turnover among DOD political appointees has hindered long-term planning and follow-through activities.

## A Multilevel Strategy Attacking the Underlying Causes Is the Key to Eliminating the High-Risk Areas

Effectively attacking the underlying causes will require congressional support and a commitment by senior-level DOD managers to a multilevel strategy that (1) implements our recommendations to correct specific problems in each of the high-risk areas and (2) develops and implements a strategic plan that addresses actions for eliminating the six high-risk areas. If DOD is successful in attacking the underlying causes of the problems, the Congress should expect to see positive outcomes, including the successful completion of full-scale financial audits; reductions in operation and support costs; and the fielding of major weapon and computer systems that meet cost, schedule, and performance estimates. If DOD's multilevel strategy does not result in the elimination of high-risk areas, the Congress may wish to consider the need for incentives to reach that goal.

### DOD Needs a Multilevel Strategy to Eliminate the High-Risk Areas

To eliminate the high-risk areas, DOD needs a multilevel strategy that implements our recommendations to correct specific problems in each of the high-risk areas and develops a strategic plan for eliminating the six high-risk areas. This strategic plan should include goals, performance measures, and time frames for completing corrective actions; identify

[7]Political Appointees: Turnover Rates in Executive Schedule Positions Requiring Senate Confirmation (GAO/GGD-94-115FS, Apr. 21, 1994).

organizations and individuals accountable for accomplishing specific goals; and provide for annual progress reports to Congress on outcomes achieved. In developing the plan, DOD should comply with legislative requirements of the Chief Financial Officers Act, the Government Performance and Results Act, the Paperwork Reduction Act, and the Clinger-Cohen Act. To help ensure success of the multilevel strategy, top-level management within DOD needs to be held accountable and have the authority and flexibility to achieve the desired results. We believe that the Deputy Secretary of Defense is the appropriate management level to develop and implement such a strategy.

## DOD Needs to Address Our Recommendations

Although DOD's actions on many of our recommendations have resulted in significant financial savings and improvements in DOD's operations, numerous recommendations have not been fully implemented. In our 1997 high-risk reports, we recommended that

- DOD implement a focused, sustained effort to fully realize meaningful financial management improvements, including integrating accounting and financial management systems, accumulating accurate cost information, resolving problem disbursements, upgrading the financial management work force and organization, strengthening internal controls, and reengineering business practices;
- DOD establish (1) performance measures to link the use of information technology to improvements in productivity, efficiency, and effectiveness of their operations and (2) a structured process for selecting, controlling, and evaluating their capital investments in technology to maximize mission-related benefits and control risks;
- DOD take much stronger actions to effectively control the influence of the acquisition culture, such as planning weapon programs and resources on a joint mission basis, examining cost and performance tradeoffs among alternatives more rigorously before a particular approach is chosen, making the war fighters responsible for participating in the selection of weapon systems, linking program decisions in a more durable way to DOD's long-term budget, and aggressively pursuing high-risk (breakthrough) technology before weapon system research and development;
- DOD seek to reengineer and streamline its contracting and acquisition processes, including the use of new business process techniques;
- the Secretary of Defense and the Secretaries of the Army, Navy, and Air Force consider using a variety of means to achieve infrastructure reductions, including consolidations, privatization, outsourcing, reengineering, and interservicing agreements; and

- DOD (1) establish aggressive milestones for substantially expanding the use of modern commercial practices; (2) provide managers with the tools critical to managing inventory efficiently; and (3) continue to explore other alternatives, such as business case analysis to identify opportunities for outsourcing logistics functions.

## DOD Needs a Strategic Plan

To attack the underlying causes of the high-risk areas, DOD also needs to develop a strategic plan that establishes results-oriented goals, performance measures, and time frames for completing corrective actions; identifies organizations and individuals that are responsible for accomplishing specific goals; and provides for annual progress reports to Congress on outcomes achieved. In developing the plan, DOD should comply with the following legislation:

- The expanded Chief Financial Officers Act of 1990 (P.L. 101-576) provides the framework for identifying and correcting financial management weaknesses and reliably reporting on the results of financial operations.
- The Government Performance and Results Act of 1993 (P.L. 103-62) emphasizes managing for results and pinpointing opportunities for improved performance and increased accountability.
- The Paperwork Reduction Act of 1995 (P.L. 104-13) requires federal agencies to use information resources to improve the efficiency and effectiveness of their operations and fulfillment of their missions. As such, it is the overarching statute dealing with the acquisition and management of information resources.
- The Clinger-Cohen Act of 1996 (P.L. 104-106) focuses on the application of information resources in supporting agency missions and improving agency performance and sets forth requirements for improving the efficiency and effectiveness of operations and the delivery of services to the public through the effective use of information technology. Specifically, the act requires that DOD establish performance measures that measure how well its information technology supports its missions and programs and that evaluations be made of the results achieved from its information technology investments.

This strategic plan and annual progress reports should be presented to the Congress to provide a basis for overseeing DOD's improvement efforts and allow other stakeholders to agree on what actions should happen and when they should occur. It is important that the Congress be adequately informed of DOD's plans and outcomes and hold top officials accountable for implementing the reforms needed to eliminate all six areas from the high-risk category.

## Congress Should Expect Certain Outcomes and Precise Measures of Performance

If DOD is successful in attacking the underlying causes of the six high-risk areas, the Congress should expect to see, over time, outcomes showing DOD's progress. Among those outcomes are the following:

- Financial management: Military services and DOD components successfully undergo full-scale financial audits, a primary catalyst for increasing the reliability of financial data and improving financial operations.
- Information management and technology: DOD effectively implements the tenets of the Paperwork Reduction Act and the Clinger-Cohen Act, including a strong Chief Information Officer organization, effective investment control processes, and the development of performance measures that link return-on-investment dollars to mission and program objectives.
- Weapon systems acquisition: DOD purchases major weapon systems within fiscal realities and fields weapons without cost overruns, schedule delays, or performance shortfalls.
- Contract management: DOD increases the use of proven acquisition and contracting processes that improve accountability and result in cost savings and other benefits.
- Infrastructure: DOD achieves reductions in operation and support activities that are commensurate with its force structure reductions.
- Inventory management: DOD significantly reduces the amount of unneeded inventory and annual expenditures for new inventory.

## Incentives May Be Needed

If DOD does not make progress in eliminating the underlying causes of the high-risk areas, the Congress may wish to consider the need for incentives to stimulate change. We believe that one of the best incentives the Congress can apply to foster results-oriented management is to use performance measurement data in its policy, program, and resource allocation decisions. Another incentive could be to allow DOD to use savings from eliminating waste in the high-risk areas to further improve operations or satisfy other defense priorities, such as modernization, readiness, and quality-of-life needs.

Mr. Chairman, this concludes my statement. I would be happy to respond to any questions you or other members of the Committee may have.

# 1997 High-Risk Series Reports Involving DOD

Defense Financial Management (GAO/HR-97-3, Feb. 1997).

Defense Contract Management (GAO/HR-97-4, Feb. 1997).

Defense Inventory Management (GAO/HR-97-5, Feb. 1997).

Defense Weapon Systems Acquisition (GAO/HR-97-6, Feb. 1997).

Defense Infrastructure (GAO/HR-97-7, Feb. 1997).

Information Management and Technology (GAO/HR-97-9, Feb. 1997).

# Related GAO Products

Contract Management: Fixing DOD's Payment Problems Is Imperative (GAO/NSIAD-97-37, Apr. 10, 1997).

Defense IRM: Investments at Risk for DOD Computer Centers (GAO/AIMD-97-39, Apr. 4, 1997).

Defense Inventory Management: Problems, Progress, and Additional Actions Needed (GAO/T-NSIAD-97-109, Mar. 20, 1997).

Defense Logistics: Much of the Inventory Exceeds Current Needs (GAO/NSIAD-97-71, Feb. 28, 1997).

Financial Management: DOD Inventory of Financial Management Systems Is Incomplete (GAO/AIMD-97-29, Jan. 31, 1997).

Air Force Depot Maintenance: Privatization-In-Place Plans Are Costly While Excess Capacity Exists (GAO/NSIAD-97-13, Dec. 31, 1996).

Defense IRM: Strategy Needed for Logistics Information Technology Improvement Efforts (GAO/AIMD-97-6, Nov. 14, 1996).

Acquisition Reform: Implementation of Title V of the Federal Acquisition Streamlining Act of 1994 (GAO/NSIAD-97-22BR, Oct. 31, 1996).

DOD Accounting Systems: Efforts to Improve System for Navy Need Overall Structure (GAO/AIMD-96-99, Sept. 30, 1996).

Information Security: Opportunities for Improved OMB Oversight of Agency Practices (GAO/AIMD-96-110, Sept. 24, 1996).

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).

Army Depot Maintenance: Privatization Without Further Downsizing Increases Costly Excess Capacity (GAO/NSIAD-96-201, Sept. 18, 1996).

Navy Depot Maintenance: Cost and Savings Issues Related to Privatizing-in-Place at the Louisville, Kentucky, Depot (GAO/NSIAD-96-202, Sept. 18, 1996).

1997 DOD Budget: Potential Reductions to Operation and Maintenance Program (GAO/NSIAD-96-220, Sept. 18, 1996).

Defense Acquisition Infrastructure: Changes in RDT&E Laboratories and Centers (GAO/NSIAD-96-221BR, Sept. 13, 1996).

Defense IRM: Critical Risks Facing New Materiel Management Strategy (GAO/AIMD-96-109, Sept. 6, 1996).

Defense Transportation: Migration Systems Selected Without Adequate Analysis (GAO/AIMD-96-81, Aug. 29, 1996).

Best Practices: Commercial Quality Assurance Practices Offer Improvements for DOD (GAO/NSIAD-96-162, Aug. 26, 1996).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

Inventory Management: Adopting Best Practices Could Enhance Navy Efforts to Achieve Efficiencies and Savings (GAO/NSIAD-96-156, July 12, 1996).

CFO Act Financial Audits: Navy Plant Property Accounting and Reporting Is Unreliable (GAO/AIMD-96-65, July 8, 1996).

Navy Aviation: F/A-18E/F Will Provide Marginal Operational Improvement at High Cost (GAO/NSIAD-96-98, June 18, 1996).

Financial Management: DOD Needs to Lower the Disbursement Revalidation Threshold (GAO/AIMD-96-82, June 11, 1996).

Defense Infrastructure: Costs Projected to Increase Between 1997 and 2001 (GAO/NSIAD-96-174, May 31, 1996).

Information Security: Computer Attacks at Department of Defense Pose Increasing Risks (GAO/AIMD-96-84, May 22, 1996).

Military Bases: Opportunities for Savings in Installation Support Costs Are Being Missed (GAO/NSIAD-96-108, Apr. 23, 1996).

Acquisition Reform: Efforts to Reduce the Cost to Manage and Oversee DOD Contracts (GAO/NSIAD-96-106, Apr. 18, 1996).

Defense Depot Maintenance: Privatization and the Debate Over the Public-Private Mix (GAO/T-NSIAD-96-146, Apr. 16, 1996).

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Military Bases: Closure and Realignment Savings Are Significant, But Not Easily Quantified (GAO/NSIAD-96-67, Apr. 8, 1996).

Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

CFO Act Financial Audits: Increased Attention Must Be Given to Preparing Navy's Financial Reports (GAO/AIMD-96-7, Mar. 27, 1996).

Defense Logistics: Requirement Determinations for Aviation Spare Parts Need to Be Improved (GAO/NSIAD-96-70, Mar. 19, 1996).

Managing for Results: Achieving GPRA's Objectives Require Strong Congressional Role (GAO/T-GGD-96-79, Mar. 6, 1996).

Defense Transportation: Streamlining of the U.S. Transportation Command Is Needed (GAO/NSIAD-96-60, Feb. 22, 1996).

Best Management Practices: Reengineering the Air Force's Logistics System Can Yield Substantial Savings (GAO/NSIAD-96-5, Feb. 21, 1996).

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Managing for Results: Critical Actions for Measuring Performance (GAO/T-GGD/AIMD-95-187, June 20, 1995).

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